

City of Detroit

CITY COUNCIL

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TO: Norman White, Director
Department of Transportation

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: April 20, 2007

RE: 2007-2008 Budget Analysis

24.

Attached is our budget analysis regarding your department's budget for the upcoming 2007-2008 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General
Pamela Scales, Budget Director
Roger Short, Finance Director
Ron Chenault, Budget Department
Barbara Hansen, DTC General Manager
Kandia Milton, Mayor's Office

Department of Transportation (20)

FY 2007-2008 Budget Analysis by the Fiscal Analysis Division

Summary

The Department of Transportation (DOT) is an Enterprise Fund Agency, but historically has not been self-supporting and has relied on contributions from the General Fund in order to present a balanced budget.

DOT's total 2007-2008 recommended budget is \$165.8 million. This represents a \$5.1 million (3.18%) increase from the current year's budget. Although DOT's net tax cost is zero, it does receive a recommended General Fund subsidy of \$79.7 million in the proposed budget.

Below is a sixteen-year history showing budgeted and actual transfers from the General Fund to the Transportation Fund:

| <u>Fiscal Year</u> | <u>Budgeted Subsidy for DOT Operations</u> | <u>Budgeted Subsidy for People Mover Operations</u> | <u>Budgeted Total Subsidy</u> | <u>% General Fund Subsidy to Total Revenues</u> |
|--------------------|--|---|-------------------------------|---|
| 2008 | \$73,478,147 | \$6,229,976 | \$ 79,708,123 | 48.05% |
| 2007 | 70,155,651 | 6,229,976 | 76,385,627 | 47.50% |
| 2006 | 77,252,604 | 6,229,976 | 83,482,580 | 49.06% |
| 2005 | 69,614,983 | 7,736,137 | 77,351,120 | 45.20% |
| 2004 | 68,199,900 | 10,265,050 | 78,464,950 | 45.00% |
| 2003 | 67,575,767 | 10,805,300 | 78,381,067 | 37.10% |
| 2002 | 73,423,721 | 11,374,000 | 84,797,721 | 40.60% |
| 2001 | 68,477,884 | 10,674,000 | 79,151,884 | 39.60% |
| 2000 | 55,372,845 | 9,255,000 | 64,627,845 | 33.60% |
| 1999 | 52,372,845 | 9,255,000 | 61,627,845 | 32.00% |
| 1998 | 55,159,845 | 8,500,000 | 63,659,845 | 35.60% |
| 1997 | 57,058,845 | | | 38.60% |
| 1996 | 43,433,734 | | | 30.80% |
| 1995 | 37,986,051 | | | 29.40% |
| 1994 | 26,831,243 | | | 22.30% |
| 1993 | 30,423,067 | | | 23.70% |
| 1992 | 35,472,696 | | | 25.30% |

¹ Mayor's Recommendation in the 2007-2008 Executive Budget.

Surplus/(Deficit)

There is currently no reported General Fund surplus or deficit in DOT for 2006-2007.

However, at the end of Fiscal 2005-2006, in the current draft of the Comprehensive Annual Financial Report (CAFR), the Transportation Fund is reporting a **\$27.69 million deficit**.

At the end of Fiscal 2004-2005, per the Comprehensive Annual Financial Report (CAFR), the Transportation Fund reported a **\$26.1 million deficit**.

Overtime

| Fiscal Year | Overtime Spent (millions) | Surplus/(Deficit) |
|------------------------|---------------------------|-------------------|
| <i>through 3/31/07</i> | \$11.50 | (3.52) |
| 2006 | \$13.73 | (5.56) |
| 2005 | 18.23 | (6.72) |
| 2004 | 21.42 | (3.40) |
| 2003 | 20.96 | (3.93) |
| 2002 | 19.92 | (2.89) |
| 2001 | 21.19 | (4.29) |
| 2000 | 21.80 | (5.31) |
| 1999 | 20.74 | (5.31) |
| 1998 | 18.40 | (3.90) |
| 1997 | 16.87 | (1.42) |

The 2007-2008 Budget recommends an overtime budget of \$7.42 million, which is \$1.96 lower than the current year.

Personnel and Turnover Savings

Following is information by appropriation comparing FY 2006-2007 positions, March 31, 2007 filled positions and FY 2007-2008 recommended positions.

| Appropriation/Program | Budgeted Positions FY 2006-07 | Filled Positions 03/31/2007 | Mayor's Budget Positions FY 2007-08 | Over/(Under) Actual to 06/07 Budget | Mayor's Recommended Turnover |
|--------------------------------------|-------------------------------------|-----------------------------------|--|---|------------------------------------|
| Transportation (20): | | | | | |
| 200010 Administration | 10 | 9 | 12 | (1) | \$ - |
| 200011 DDOT Strategic Planning Div. | 0 | 0 | 9 | 0 | \$ - |
| 200012 DDOT Capital Projects Div. | 0 | 0 | 2 | 0 | \$ - |
| 200070 Mgmt. Information Svcs. | 0 | 0 | 0 | 0 | \$ - |
| 200090 Accounting | 44 | 42 | 36 | (2) | \$ - |
| 200100 Grants Management | 2 | 2 | 0 | 0 | \$ - |
| 200110 Planning & Marketing | 14 | 12 | 14 | (2) | \$ - |
| 200150 Purchase & Cont. Admin. | 6 | 5 | 15 | (1) | \$ - |
| 00146 Departmental Operations | 76 | 70 | 88 | (6) | \$ - |
| 200170 Building Maintenance | 46 | 38 | 68 | (8) | \$ - |
| 200230 Security | 30 | 26 | 7 | (4) | \$ - |
| 00149 Plant Maintenance | 76 | 64 | 75 | (12) | \$ - |
| 200280 Vehicle Maintenance | 350 | 286 | 349 | (64) | \$ - |
| 200290 Materials Management | 44 | 36 | 28 | (8) | \$ - |

| | | | | | | |
|----------------------------|--------------|--------------|--------------|------------|-----------|------------------|
| 00150 Vehicle Maintenance | 394 | 322 | 377 | (72) | \$ | - |
| 00151 Vehicle Maintenance | 0 | 0 | 0 | 0 | \$ | - |
| 200300 Vehicle Operation | 977 | 1,071 | 972 | 94 | \$ | - |
| 200330 Service Development | 10 | 8 | 0 | (2) | \$ | - |
| 00151 Transportation | 987 | 1,079 | 972 | 92 | \$ | 2,630,000 |
| 20XXXX Leave of Absence | 0 | (16) | 0 | (16) | \$ | - |
| 20XXXX Worker's Comp. | 0 | (46) | 0 | (46) | \$ | - |
| 20XXXX Unmatched Positions | 0 | 59 | 0 | 59 | \$ | - |
| TOTAL | 1,533 | 1,532 | 1,512 | (1) | \$ | 2,630,000 |

Since 23 positions were transferred to GSD, there are 2 new positions in the department.

Significant Changes in Funding by Appropriation

Comparison of 2006-2007 Budget to 2007-2008 Recommended Budget by Major Object Group

| <u>Major Object Group</u> | <u>Change Amount</u> |
|---------------------------|----------------------|
| Salaries and Wages | \$4,800,774 |
| Employee Benefits | 1,598,720 |
| Prof/Contract Svcs | 949,865 |
| Operating Supplies | 178,344 |
| Operating Services | 144,381 |
| Other Expenses | 5,638 |
| Capital Acquisitions | -0- |
| Fixed Charges | (2,562,872) |
| Total | <u>\$ 5,114,840</u> |

Appro. Program

| | | |
|-------|-------------|---|
| 00146 | Dept. Oper | This appropriation increases by \$2.21 million. Employee costs increase by \$1.474 million mainly due to a shift of staff from the Transportation appropriation. There is a reduction in professional and contractual services of \$215,000. There is an increase in Operating Supplies of \$144,000. Operating services are decreasing by \$380,000. |
| 00937 | Claims Fund | This account included the premium that DOT must pay to the Risk Management Fund, the city's self-insurance fund, for legal settlements, workers comp costs and debt service costs. This rate is determined by the Budget Department and is based on actual five-year activity. The net decrease is \$3.7 million, with the actual premium decreasing by \$1.2 million, while the debt service payment is decreasing by \$2.5 million. |

- 00149 Plant Maintenance This appropriation increases by \$.743 million. There is a reimbursement to General Services of \$1.44 million for the Security staff that is recommended to be transferred.
- 00150 Vehicle Maintenance The appropriation is increasing by \$5.95 million overall. Salaries and Benefits are up by \$6.1 million. Operating supplies are down by \$210,000.
- 00151 Transportation The appropriation is decreasing by \$170,000. Employee Benefit costs decrease by \$1.2 million; Professional and Contractual Services increase by \$1.2 million, due to increased costs for the disabled/senior door-to-door service. Operating Supplies are down by \$120,000.

Department of Transportation (20)

| Budgeted Professional and Contractual Services by Activity | FY 2006-07 Budget | FY 2007-08 Recommended | Increase (Decrease) |
|--|----------------------|---------------------------|------------------------|
| Administration | \$ 460,000 | \$ 245,000 | \$ (215,000) |
| Plant Maintenance & Construction | 1,135,000 | 1,125,000 | (10,000) |
| Vehicle Maintenance | - | - | - |
| Transportation | 6,000,000 | 7,174,865 | 1,174,865 |
| Total | \$ 7,595,000 | \$ 8,544,865 | \$ 949,865 |

Significant Revenue Changes by Appropriation and Source

Fare Box Revenue

The recommended budgeted fare box revenue of \$27.2 million accounts for only 16.3% of DOT's operational costs. This is an increase of \$.726 million from the current budget.

State reimbursement for operations is projected at \$53.3 million, an increase of \$1.95 million or 3.81%.

Since 1998, the Feds no longer provide direct operational funding for transportation. The Feds will still provide capital grants for the purchasing of buses and they will now allow some transfers of operational maintenance costs to those grants that are awarded.

Issues and Questions

1. Please explain how the transportation fund is faced with an increasing cumulative deficit. What is the plan to eliminate the deficit? Does a deficit reduction plan have to be submitted to the State? If yes has the plan been submitted to the State? If, not, when will the plan be submitted? What will the state say about the deficit increasing after a deficit reduction plan was submitted last year? Please provide a copy of last year's deficit reduction plan.

2. Can you suggest any other avenues that would reduce, eliminate the need for continuing general fund subsidies to DOT? Can you suggest a 3 or 5 year plan to eliminate the subsidy?
3. Operationally is this a realistic budget that will allow DOT to maintain service levels? Did the recommended staff shifts result from any type of study?
4. Please provide a detailed list, by account, by cost center, the operating costs that will be charged to grants for the current fiscal year and next fiscal year.
5. Where is the payment to GE Capital for the buses purchased last year budgeted?
6. Why do employee costs go up by \$10 million in Approp. 0151 – Transportation when the same number of positions is being maintained? How are those salaries being paid in the current year?
7. Was the 10% pay cut restored?
8. Explain the increase in the paratransit service contract?
9. Explain the decrease in the natural gas account?
10. Please provide a copy of this fiscal year's cash flow as well as cash flow projections through June 30, 2008.
11. Are there other functions that may move over to GSD besides security? What was the reason for transferring security now as opposed to last year?

Attachment: Fiscal Analysis Division's Review of the 2007-2008 DTC Budget

Detroit Transportation Corporation (People Mover)

FY 2007-2008 Budget Analysis by the Fiscal Analysis Division

Summary

The Detroit Transportation Corporation (DTC) was created by the City of Detroit pursuant to P.A. 7 of 1967 as a component unit of the city for the basic purpose of acquiring, completing and operating the Downtown People Mover.

The DTC is governed by a Board of Directors consisting of six members, appointed by the Mayor without compensation or set terms. The City Council President also sits on the board.

The DTC organization structure includes twelve divisions: Administration, Executive, Accounting, Field Operations, Homeland, Human Resources, Maintenance, Marketing, Operations Administration, Quality Control, Safety, and System Operations.

The recommended 2007-2008 Budget for the DTC is \$13.6 million, \$463,000 less (3.2%) than the current fiscal year budget, excluding depreciation.

The Mayor recommends a General Fund operating subsidy of \$6.229 million (45% of the operating budget) for the DTC, which passes through the Detroit Department of Transportation (DDOT). The DTC has received a General Fund subsidy of \$6.229 million for the past several years.

2006-2007 Surplus/(Deficit)

Based on documentation presented, it is unclear if the DTC is projecting a surplus or deficit.

The 2004-2005 financial statements (CAFR) reported that the DTC ended the fiscal year on June 30, 2005 with a \$6.8 million fund balance. The preliminary draft CAFR for 2005-2006 shows a \$9.7 million fund balance.

Funding

Attached is the DTC budget for FY 2006-2007.

Revenues:

Operating revenue (fare gate, tokens and passes) is increasing by \$127,800 (13.3%).

Non-Operating revenue decreases by \$278,119, with the 75% of the revenue coming from a state ACT 51 Grant and a MDOT Rail Grant.

There is no change to the city subsidy of \$6.23 million.

Issues and Questions

1. Can DTC provide a plan, over 1 to 3 years that will continue to significantly reduce the subsidy requirement?
2. Explain the increase of \$3 million in fund balance from 04/05 to 05/06.
3. How is the current fiscal year projected to end – surplus or deficit?
4. Please provide Actuals for both expenses and revenues for the last 5 years.
5. Is DTC considering a fare increase? Should one be considered? Why or why not? Have any consultants been contacted for a study?
6. What was the outcome in the current year's budget with projected increases in grant income? How much was awarded and what was it used for?
7. How much bond money has been appropriated to DTC in prior years? What is the remaining balance of those funds?
8. Please explain the \$1 million in land sales for the current year – has that taken place? What piece of property is it?
9. Please explain the \$500,000 in land sales proposed for the upcoming year – where is the land located? How much other land does DTC have that is considered surplus? Who provided the funds for the initial purchase of the land?

Attachments: DTC Budget 2007-2008

Detroit Transportation Corporation
COMPARATIVE BUDGET
Fiscal Years 2007 and 2008

| | FY 06/07 Budget | FY 07/08 Budget | Variance |
|--------------------------------------|--------------------|--------------------|-------------|
| Operating Revenue | 954,600 | 1,082,400 | 127,800 |
| Operating Expenses | | | |
| Salaries & Fringes | 4,913,147 | 5,136,430 | 223,283 |
| Benefits | 2,632,519 | 2,283,460 | (349,059) |
| Professional Services and Consulting | 663,790 | 490,000 | (173,790) |
| Advertising & Public Relations | 208,182 | 187,500 | (20,682) |
| Insurance | 839,800 | 921,500 | 81,700 |
| Maintenance & Renovation | 2,218,000 | 2,300,264 | 82,264 |
| Office Supplies | 43,500 | 47,850 | 4,350 |
| Rent | 235,403 | 240,111 | 4,708 |
| Telephone & Utilities | 700,000 | 651,000 | (49,000) |
| Depreciation | 8,303,003 | 8,316,130 | 13,127 |
| Other Expenses | 1,112,032 | 795,945 | (316,087) |
| Total Operating Expenses | 21,869,376 | 21,370,190 | (499,186) |
| Operating Loss | (20,914,776) | (20,287,790) | 626,986 |
| Non-Operating Income | | | 0 |
| Rental Income | 22,000 | 22,000 | 0 |
| Interest Income | 95,000 | 134,685 | 39,685 |
| Advertising Revenue | 262,000 | 250,000 | (12,000) |
| Miscellaneous Revenue | 15,000 | 0 | (15,000) |
| FTA Grant Revenue | 708,032 | 700,000 | (8,032) |
| ACT51 Grant Revenue | 3,791,772 | 4,250,000 | 458,228 |
| MDOT Rail Grant Revenue | 0 | 434,000 | 434,000 |
| CMAQ Grant Revenue | 675,000 | 0 | (675,000) |
| Sale of Real Property | 1,000,000 | 500,000 | (500,000) |
| Total Non-Operating Revenue | 6,568,804 | 6,290,685 | (278,119) |
| Net Loss Before Operating Tfr | (14,345,972) | (13,997,105) | 348,867 |
| Operating Transfer From City | 6,229,000 | 6,229,975 | 975 |
| Restricted Non-Operating Revenue | | | 0 |
| City Bond Revenue | 8,000,000 | 2,000,000 | (6,000,000) |
| DDA Grant Revenue | 0 | 0 | 0 |
| Net Loss After Operating Tfr | (116,972) | (5,767,130) | (5,650,158) |
| Depreciation of Fixed Assets | | | 0 |
| Acquired by Grants | 7,802,810 | 7,767,130 | (35,680) |
| Net Income (Loss) | 7,685,838 | 2,000,000 | (5,685,838) |
| | ===== | ===== | ===== |
| | | 0 | |